Pacific Cascade F.C.U.
Charter # 14545
Bob Harris, President/CEO

Re: Response to Risk Based Net Worth Proposal:

I agree with the concept of risk based capital. Regulation does need to be appropriate for the times and the environment. But with this proposal, I believe NCUA is reacting to the problems and losses of the "Great Recession" (behind us) giving little consideration to the impact your reaction will have on the future of the credit union industry. I worry if the regulation is left as proposed it will hasten the speed of credit union mergers. I admit that is more a "gut" reaction than based on any quantitative analysis. But we have seen far too much regulation (Durbin, Card Act, etc) result in unintended negative consequences. Is this here we go again?

. As for appropriate risk weights, I will not pretend to be a finance guy who can make a case for appropriate risk weights for any given asset class. I would like to understand NCUA's rationale for proposed risk weights. The agency should provide credit unions with its analysis for the proposed risk weights so credit union responses are better informed and I believe more valuable to the agency.

For example, I wonder about the risk weighting for investments. I have close to half my investment portfolio in one to three year FDIC/NCUA insured certificates of deposit. I have to hold 50% yet I do not have a credit risk, IRR is very limited, and I can take an early withdrawal penalty and convert them to cash without loss of principal if I have a liquidity need or rates have moved enough to make taking the penalty and reinvesting pencil out. Seems to me they ought to be at worst a category 2 at 20%.

In that same category 2 are long term residential real estate loans guaranteed by FHA or VA. So, there is no credit risk but what about IRR? Should I hold 50% of my assets in those loans? Might that be an unintended consequence waiting to happen?

Cash is weighted at zero but overnight funds have a risk weighting of 20%. Our corporate, Catalyst, moves all those funds overnight to the Dallas Fed. The regulation does not seem to address funds held at the Fed. If there is no risk of loss should the weighting be zero as well?

Another quandry is the proposed weighting for CUSO investments versus a loan to a CUSO, 250% versus 100%? So, it is safer to make loans to a CUSO than to own one where we can have a say in the governance of the CUSO?

I question the proposed weights for junior real estate liens. I understand NCUA's concern about real estate loan concentrations and IRR. But, with junior liens there is no more risk than a first lien if underwritten at appropriate CLTVs. IRR may in fact be less as many are HELOCs with variable rates. The mortgage weighting ignores variable rates. I fail to understand why I can hold more MBLs (15% ) at that tier than junior liens (10%). Is the agency suggesting we should get into MBLs (we are not)? In general, when looking at risk of the mortgage portfolio I would like to see LTVs part of the equation.

If NCUA can selectively increase a credit union's required risk based capital there should be a process in place to allow a credit union to appeal the higher requirement. This proposal paints all credit unions with one broad brush. It is written as a reaction to the recent debacle and NCUA's fear of a rising rate environment. I get that worry, but how will this regulation work five or ten years from now when rates are higher? Will proposed concentration tiers for real estate make sense then? How willing will future NCUA boards be to consider a rewrite to meet that environment? The losses that NCUA saw in the insurance fund were large but were not the losses concentrated in regions? While there may have been major issues with junior real estate liens and the sand states how bad were the losses for the same in my region of the Pacific Northwest?

I have been through many examinations over my years and one consistency about the exams is inconsistency. What is a risk and big deal to one examiner may not be for another. An issue for a supervisory examiner may not be for another. I get it is difficult for such a vast agency to expect consistency across the landscape so if for no other reason than that there should be an appeal process. In fact, I would take it a step further and suggest credit unions should be able to make a case for a lower minimum RBNW requirement.